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ANALYSIS OF THE FINANCIAL STRUCTURE OF THE COMMERCIAL BANK OF CONGO (BCDC)

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ABSTRACT

This article aimed to analyze the financial structure of the Commercial Bank in Republic Democratic of Congo and determine whether the bank represent an interest to their stakeholders. It also aimed to make a judgment on the financial situation of the Commercial Bank of Congo through an exploration of banks documents, interviews and comparative methods to study the main indicators in order to assess both its solvency, its profitability and its financial equilibrium. The indicators of the evaluation period show that the bank had a good performance and the financial profitability is positive and comply with banking standards.

KEYWORDS: Bank, financial structure, banking system and prudential standard.

1. INTRODUCTION

Economically, the role played by a bank in terms of collection and redistribution savings to social and commercial firms to improve their investment or working capital, is not well known.

However, by redistributing savings in the form of credit, the bank takes several types of risk, which are determined either by the quality of the borrower (risk of insolvency and counterparty) or by general economic rate (exchange and market rate), or finally by the financial structure of the bank. According to Pierre Conso (2001, P.260), "Risk is omnipresent and multiform, to fight them, therefore concerns all organization actors ". [1]

It is for this reason that bankers and all companies' managers must constantly monitor creditworthiness in order to maximize its profitability and minimize its risks for proper management.

In light of the above, we believe that a thorough analysis of the financial statements of a bank (management documents) is essential. Because it provides us with information on the health of the said bank, in order to determine whether the bank analyzed is an acceptable asset to shareholders, creditors and public authorities.

Making the analysis of the financial structure of banks has become a subject of great interest that why this study focused on the theme "Financial structure of the Commercial Bank of Congo from 2010 to 2013". The choice of this topic was motivated by the fact that there is great need to know the Commercial Bank of Congo's financial problems encountered during its exploitation and hence analyze the various causes.

Looking at the relevancy of this field, this study proposes to explore the effectiveness of the Commercial Bank of Congo's financial structure. Therefore, the solvency, the profitability and the financial stability of the bank will be asset.

2. MATERIALS AND METHODS

In order to assess the financial structure of the Commercial Bank of Congo, this study was mainly concerned with the bank financial situation between 2010 and 2013. Interviews were conducted with the management of various departments focusing on the financial and accounting departments.

The descriptive method was employed to explore the key values of this study. The statistical method facilitated to make interpretation of the collected data, the analytical method helps to process the accounting data. The documentation was exploited prior to the application of the above methods. Finally, a semi-open questionnaire was very useful to broaden the understanding of the topic.

To understand this study, assume that the Commercial Bank Of Congo would have an adequate financial structure supported by: a margin of financial security; Net cash flow; a sufficient level of liquidity to honor its liabilities of the creditors; Continuous profitability and a sufficient economic and financial return

3. THEORETICAL FRAMEWORK

This section is essentially theoretical and focuses on two keys approaches: banking and finance structure.

3.1 The bank

A bank is a business that trades money, it is primarily concerned with money transactions such receiving capital placed on accounts, money exchange, lending of money. A certain interest rates and various commissions are applied to each transaction execute on the third party's account. The bank is hence responsible for all the transactions and the financial services.

On the other hand, banks are defined as financial institutions that carry out banking operations as determines by the laws and regulations of a country and they must abide to them. The Article 1 (2) of the laws 003/2002 of 2nd february 2002, governing the activity and supervision of credit institutions in Democratic Republic of the Congo, states that "banking operations include the receipt and collection of Public funds, credit operations, payment transactions and the management of payment instruments"

Generally, banks are classified according to their role: central banks, commercial banks and investment banks.[2]

Central Bank is the bank in any country to which has been entrusted the duty of regulating the volume of currency and credit in that country, it is an independent national authority that conducts monetary policy, regulates banks, the goals of central bank are to stabilize the nation's currency, keep unemployment low, prevent inflation, controls different interest rates in a country and affect economic growth by controlling the liquidity in the financial system. Apart from this, the central bank controls and regulates the activities of all commercial banks in a country.

Commercial banks, these are banks specialized in short-term operations. Their main activity is to carry out credit transactions and to receive demand and term deposits from the public.

Investment banks are a special segment of banking operation that helps individuals or organisations raise capital and provide financial consultancy services to them. They receive long-term deposits and grant medium-term credit, deposits received and their equity.

3.2.1 The Congolese banking system

The Congo's banking system is comprised of the Central Bank of Congo and 18 commercial banks as well as savings/credit cooperatives, microfinance institutions, financial transfer services. [3] The Congolese Banking System is made by two categories. On hand there we have the banking institutions that create money, whereas (central bank and commercial banks), on the other hand, we have non-banking or specialized financial institutions. [4]

3.2 Financial structure

In this section, we discuss the following two points: Definition and Study of the financial structure.

Being complex, the term financial structure appears in several different definitions.

A more complete definition proposed by J. BARREAU and J. De La HAYE. In their financial management manual; for them it is an assessment of the great masses of the balance sheet and the study of the relations that exist between them and between their main components.[5]

In sum, we can define the financial structure as a distribution between the financial debts and the equity of a company.

The most relevant tools for assessing the indicators of the financial structure are

the balance sheet and the income statement.

3.3 Congolese prudential standards
Credit institutions are required to comply with management standards designed to ensure their liquidity and solvency with depositors and more generally with third parties and with the balance of their financial structure.

- **The minimum capital**

Banks are required at the time of their registration on the Central Bank to have a minimum regulatory capital paid up to USD 10 million. [6]

A bank must at all times prove that its assets actually exceed an amount or less equal to the minimum capital the liabilities it owes to third parties.

- **Shareholders' equity**

Prudential capital consists of the sum of core and supplementary capital.

- **Solvency**

We mean the solvency is the capacity of the company assured at any moment the payment of these debts due. Solvency ratio is the ratio between the amount of their prudential capital and of their total risk-weighted assets.

- **Other Indicators**

The profitability, to properly manage a bank the owners need a good measure of bank profitability, we have two coefficients to measure profitability:

The return on assets (ROA): it measures the management efficiency of the bank.

ROA = (Net profit after tax) / assets

The return on equity (ROE): it measures the return on investment of homeowners.

Its formula is: ROE = (net profit after tax) / (own funds)

Measurement of the results of the banking activity, that includes: The Net Banking Income, which is an indicator that accounts for all of the bank's activities and determines its gross margin. It is obtained by: (Operating revenues - Operating expenses)

Financial Balance Indicator is generally analyzed by three indicators, working capital, working capital requirement and finally net cash.

4. RESULT AND DISCUSSION
Before process to make the analysis of this study, it is useful to deflate the financial statements of Commercial Bank of Congo in order to remove the influence of inflation on the amounts and to give the same reality to the profit and loss accounts and balance sheets of the period under review.

In order to take account of market reality, the inflation rate for each year is needed to calculate the deflator coefficients in order to obtain the deflated amounts or in constant francs.

Table1
Inflation rate

2010	2011	2012	2013
9,6%	15.40%	5.67%	1.07%

Deflator coefficients (CD)

CD 2010 = 1

CD 2011 = $(1 + 0.154)\,\delta\,(-1) = 0.8665511$

CD 2012 = $⟦(1 + 0.154)\,\delta\,(-1)\,(1 + 0.0567)⟧\ ((-1) = 0.8200540$

CD 2014 = $⟦(1+0.154)\,\delta\,(-1)\,(1+0.0567)⟧\ ((-1)\,(1+1.0107)\,\delta\,(-1) = 0.8113723$

Amount deflated or constant

Constant Franc = Current Franc × Deflator Coefficient

3.1 Analysis of the financial structure of commercial bank of Congo
To assess the financial structure of a bank is to evaluate the adequacy between the economic and the financial resources at its disposal (financial equilibrium) and to assess the risks of bankruptcy in the case of liquidity and solvency.

On this basis, we will have to carry out a study of bank financial equilibrium by appreciating its working capital, its working capital requirements and its cash position

Table 2
Financial Balance Indicator Calculations in thousands of Congolese Franc (CF)

Rubrique	2010	2011	2012	2013
Permanent capitals(1)	46 637 872	48002080	50487244	53665126
Fixed assets(2)	15 709 596	18930567	23728897	24706368
Operations with client assets (3)	107 452435	123457238	154065571	174515621
Other asset accounts (4)	4 941 288	10970463	9279897	11328640
Operations with liabilities (5)	251 199843	235750500	285710260	343666362
Other liabilities (6)	24 760 255	28428217	44532711	34918980
Net Working Capital (FRN) 7 = (1)- (2)	30928276	29071513	26758347	28958758
Working Capital Requirements (WCR)	1666594651	158822529	193655850	195636959

The table 2 shows that from 2010 to 2013, the working capital is positive when the permanent capital is above the fixed assets. This means that the Commercial Bank of Congo has a margin of financial security to finance its operations. Working Capital Requirements (WCR) are negative, this means that its operation has more resources than needs.

3.2 Analysis of solvability
To assess the financial structure of a bank is to evaluate the risks of bankruptcy in cash and solvency, on this we will have to carry out a study on the analysis of the solvency ratios.

Table 3:
Calculations of solvency ratios (in thousands of CF)

Category	2010	2011	2012	2013
Total balance sheet (assets = liabilities) (4)	329 226701	326804675	394966781	436412016
Total debts or Expendables (5)	299046874	295021448	360373477	398572304
General solvency (8) = (4) /(5)	1,10	1,11	1,10	1,10

The table above, the General Solvency Ratio is greater than 1 which is the norm, it shows that the Bank is solvent to all its creditors in the event of liquidation because the liquidity of all its assets will enable it to pay all its debts.

3.3 Analysis of profitability
Measure a company's profitability is about determining its performance against a specific objective and resource used. In order to assess this profitability, the financial analysis deals with the profit and loss accounts.

Table 4

Rubriques	Years			
	2010	2011	2012	203
Net banking income	42 867 345	43149018	47102421	51979938
Gross operating income	18 127 086	16352596	19093481	18173480
Profit before tax and exceptional	16 668 049	14575133	16942061	15746469
Profit before tax	11 177 891	11162799	13152867	11975312
The exercise's benefit	5 605 166	6450187	7568014	6924916

In view of this table above, we note that all the different results of the profit and loss account of the said bank have improved over time.

Table 5
Economic Return (ROA) and Financial (ROE) Calculations
(In thousands of CF)

Rubriques Criteria	Exercises			
	2010	**2011**	**2012**	**2013**
Profit before tax (1)	11177891	11162799	13152 867	11975312
Profit for the exercises (2)	5605166	6450187	7568014	6924916
Total Assets (3)	32922671	326804675	394966781	436412016
Shareholders 'equity	30179827	31783227	34593304	37839793
Economic efficiency 5 = 1/3×100>1	3,40%	3,42%	3,33%	2,7%
Financial profitability 6 = 2/ 4 × 100	18,57%	20,29	21,88%	18,3%

From the table above, we note the following:

- Return on Assets (ROA) is the expression of the profitability of bank assets. The main criticism is that this indicator places all assets under the same risk perspective of the same degree. The result shows that Commercial Bank of Congo (BCDC) is performing well and can compete.

Thus, the bank made a return on its invested capital throughout the analysis period as its economic return ratio is above the norm.

- Return on Equity (ROE) is an expression of the profitability of banks' equity. This ratio is mainly for shareholders. After analysing this key ratio of financial performance, Commercial Bank of Congo (BCDC) made a return on equity throughout the review period as shareholder investment generated an average positive income that is more or less in line with the bank's banking standard 15%.

5. CONCLUSION

In discussing this topic, our overall objective was to evaluate the financial stability of the Commercial Bank of Congo (BCDC) by making the analysis of its financial structure.

This study assumed the Commercial Bank of Congo (BCDC) to have an adequate financial structure, supported by: a margin financial security enabling the funding of its operations; a healthy net cash position; a sufficient level of liquidity to fulfill its commitments with its creditors, continuous profitability and financial profitability. Indeed, the verification of the hypotheses formulated required the use of methods, such as the historical, analytical and finally comparative method, as well as techniques, such as the documentary and interview.

This study of the Commercial Bank of Congo (BCDC)'s financial structure analysis allowed making a judgment on its financial stability, its liquidity, its solvency and its performance.

However, after analyzing and processing the collected data, the following conclusions were reached:

Commercial Bank of Congo (BCDC) has a financial margin of security that allows funding its operations. In other words, its working capital is positive.

The cash position is good, the bank have the capability to finance its expenditures without resorting to debt.

For its general liquidity ratio, it has the capacity to fulfil its short-term commitments by using its current assets.

Its various results of the profit and loss account have improved over time, which means that it has continued profitability.

Its economy and financial profitability; are positive and comply with banking standards.

In all of the above, we have observed that our assumptions have been confirmed and we can say that the general objective of our study has been achieved.

We believe that we have not exhausted all questions related to the analysis of the financial structure of a bank.

Nevertheless, it is believed that this study has enlightened certain factor regarding the banking financial structure. Other researchers will undoubtedly find elements to exploit, and it is strongly hoped that there will be other, more rewarding, subjects for investigation, to the delight of the scientists,

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